



## King County

Office of Economic and Financial Analysis  
Central Building, 8<sup>th</sup> floor  
810 Third Avenue, Room 8S-050  
Seattle, WA 98104

May 29, 2020

The Honorable Kathy Lambert  
Chair, King County Forecast Council  
Room 1200  
KING COUNTY COURTHOUSE

Dear Chair Lambert:

Please find attached the updated King County Economic and Revenue Forecast for May 2020. We have updated the March 2020 forecast based on the most currently available information and submit this updated forecast for the consideration of the Forecast Council.

This forecast is being submitted earlier than usual to help the County better plan for the ongoing Covid-19 pandemic. The pandemic has caused unprecedented and rapid changes world-wide including terrible illness and death. From an economic perspective, it has caused massive contractions of global economies due to shutdown orders, social distancing and fear of the virus. This will have enormous consequences for the global economy and also for the King County economy and County revenues. There is also enormous uncertainty in both the economic and revenue forecasts due to all the current unknowns. The most significant is the uncertainty around the virus itself and whether the current four-phase State approach will allow us to keep the virus adequately suppressed while gradually increasing economic activity. Significant risks are that the virus comes back due to opening too soon or comes back in the fall or later. Other risks are the uncertain nature of the recovery outside the virus. There will be an extended period of social distancing required and a recovery period for businesses and consumers both in terms of fear of infection and due to the very large impacts to jobs, businesses and families that will translate into reduced consumption. This impact will be felt this year but likely extend in varying ways multiple years into the future.

For the purposes of this forecast, the following safe start phase assumptions have been used:

- Phase 1: In effect
- Phase 2: End of June/first of July
- Phase 3: Summer 2020
- Phase 4: Fall 2020 or winter 2021

This schedule has significant impacts for the economy and the forecast. Phase 2 allows much more typical economic activity. New construction can start again and all manufacturing is allowed. Most service work is allowed but restrictions continue on the hospitality industry, arts, leisure and others. The biggest impacts in the near term will be how fast people choose to go back to spending money and how much social distancing measures impact productivity and revenue.



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The Covid-19 pandemic is negative for virtually every county revenue source that OEFA forecasts. The most sensitive are sales taxes from general commerce and also related to hotels, car rentals and others. The huge reduction in economic activity due to the pandemic has led to large reductions in the sales tax forecasts and others. We are calling for a 25%-30% reduction in taxable sales in 2020. This is massive and unlike anything experienced before (during the great recession taxable sales fell 17.8% from 2007-2010). One up-side is that the contraction is expected to be short with most national forecasters having the economy already expanding again in the second half of 2020. So our forecast calls for significant growth in taxable sales in 2021 and 2022.

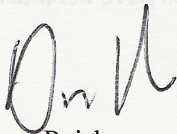
As for our other economic measures and revenues, we have revised the assessed value forecast down in 2022 to account for likely reduced property values in the commercial sector. The reductions are relatively modest and assume little change on the residential AV side. New construction has been reduced to reflect the construction shutdown in 2020 and likely pull back in construction going forward. Overall, property taxes are modestly affected except the parks levy which will see a lower limit factor in 2020 and EMS which is subject to a maximum levy rate limitation of 26.5 cents. The forecast for investment pool returns was reduced significantly to reflect updated financial conditions and the inflation forecasts for 2020 have been lowered consistent with the view that price pressure will be negative in 2020. The REET forecast was revised down to reflect a significant decrease in expected transactions.

For the upcoming Forecast Council meeting on June 4, 2020 we are asking for action/approval on the following items:

1. Chair election
2. The updated forecast
3. Annual work plan
4. Revised discount rate

We appreciate the opportunity to submit this updated forecast to the Forecast Council and look forward to further discussion at our forecast review meetings. Please contact me with any questions or concerns (477-3410).

Sincerely,



Dave Reich  
Chief Economist, Office of Economic and Financial Analysis

Enclosures

cc: King County Forecast Council Members  
ATTN: Pat Hamacher, Senior Principal Legislative Analyst  
Wendy Soohoo, Principal Legislative Analyst  
Melani Pedroza, Clerk of the Council  
Aaron Rubardt, Deputy Director, PSB